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CORPORATION FILE

UNITED DRUG, INC.

AND

SUBSIDIARY COMPANIES

ANNUAL REPORT

DECEMBER 31, 1938

MRB
CORP. FILE

March 1, 1939

To the Stockholders of United Drug, Inc.:

The annual report of your Company herewith submitted presents a consolidated balance sheet, consolidated statement of profit and loss and earned surplus for the year ending December 31, 1938.

After all charges, including depreciation, federal income taxes, bond interest and loss on guaranteed leases, earnings for 1938 were $518,431.92, or 37¢ per share on the capital stock of the Company.

Earned surplus as of December 31, 1938 amounted to $6,715,185.41, an increase of $591,565.06, after a credit of $73,133.14 for discount on purchase of United Drug Company bonds.

The profits of the Company were charged with taxes amounting to $1,525,580.11 or $1.09 per share. In addition, your Company paid various sales taxes amounting to $781,174.72, a portion of which was recovered in selling prices.

Net sales decreased $5,491,030.08 or approximately 5.9% compared with 1937. The major decrease in volume occurred in the first six months of the year and the resultant net loss from operations for that period was $635,385.62. The second half of the year witnessed an improvement in volume and gross profit which, together with the benefits arising from reduction in expenses, produced a net profit for that period of $1,153,817.54.

Your Company has remained in a sound cash position, closing the year with cash of $7,629,946.58, or $1,789,471.00 more than it had at the end of the previous year. Working capital increased $908,006.91 during the year. The ratio of current assets to current liabilities as of the end of the year is approximately five to one.

Since the close of the year 1938 the Company has acquired the entire ownership of the Eastern Tablet Corporation located in Albany, New York in which it has held a substantial interest for a number of years. Eastern Tablet Corporation manufactures various items that form a part of the stationery line sold by United Drug Company.

Respectfully submitted,

Louis K. Liggett

President.

PRICE, WATERHOUSE & CO.

75 FEDERAL STREET
BOSTON

February 25, 1939.

To the Board of Directors
of United Drug, Inc.:

We have made an examination of the consolidated balance sheet of United Drug, Inc. and its subsidiary companies as at December 31, 1938 and of the consolidated statement of profit and loss and earned surplus for the year ending on that date. In connection therewith we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related consolidated statement of profit and loss and earned surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the position of United Drug, Inc. and its subsidiary companies at December 31, 1938, and the results of their operations for the year ending on that date.

PRICE, WATERHOUSE & CO.

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CONSOLIDATED BALANCE S

ASSETS

CURRENT ASSETS:			
Cash in banks and on hand		$ 7,629,946.58	
Marketable securities and call loan (*value based on December 31, 1938 market quotations — approximately $425,600*)		344,712.83	
Accounts and notes receivable:			
Customers' accounts and notes	$4,883,476.38		
Miscellaneous	547,958.06		
	$5,431,434.44		
Less — Reserves for doubtful balances, discounts, etc.	454,890.24	4,976,544.20	
Inventories of merchandise, partly finished stocks, materials and supplies, certified as to quantities and condition by responsible officials (*at cost or market, whichever lower*)		18,666,538.11	$31,617,741.72
INVESTMENTS AND ADVANCES, ETC.:			
Customers' notes receivable and advances, less reserves		$ 275,415.38	
Miscellaneous advances, claims and deposits, less reserves (*including $80,013.54 due from employees*)		993,885.27	
Miscellaneous investments, at or below cost, less reserves		438,844.93	1,708,145.58
PROPERTY ACCOUNTS — at cost, written down amounts, or appraisal valuations (*including store fixtures and improvements of retail companies at appraisal valuations determined in 1933, as approved by the directors, plus subsequent additions at cost*):			
Land, buildings, and building fixtures		$ 9,126,384.09	
Machinery and equipment, etc.		8,551,670.08	
Store fixtures and improvements		9,641,707.59	
		$27,319,761.76	
Less — Reserves for depreciation		12,415,041.04	14,904,720.72
PREPAID INSURANCE, TAXES, RENT, ETC., AND ADVERTISING SUPPLIES			687,247.20
GOODWILL, TRADE-MARKS, ETC.			7,500,000.00
			$56,417,855.22

RUG, INC.

RY COMPANIES

HEET — DECEMBER 31, 1938

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable, accrued expenses, etc.	$ 5,807,040.53	
Accrued interest on funded debt	502,324.34	
Provision for federal and foreign taxes on 1938 and prior years' income	255,791.06	$ 6,565,155.93
FUNDED DEBT:		
Twenty-five year 5% debenture bonds of United Drug Company, due March 15, 1953:		
Authorized and issued, $40,000,000 less $3,750,000 retired	$36,250,000.00	
Less — In treasury, held for retirement (*including $750,000 principal amount available to meet the sinking fund payment due March 15, 1939*)	1,804,900.00	34,445,100.00
RESERVES:		
Maintenance of store fixtures and improvements	$ 202,215.16	
Contingencies (*after deducting net charges thereto in 1938, amounting to $42,875, representing a portion of additional 1930 federal income taxes and interest thereon assessed against Drug Incorporated, predecessor of United Drug, Inc., less miscellaneous credits*)	1,011,958.56	
Miscellaneous	24,474.82	1,238,648.54
CAPITAL STOCK AND SURPLUS:		
Capital stock:		
Authorized and issued, or to be issued — 1,400,560 shares, par value $5 each	$ 7,002,800.00	
Capital surplus	980,215.21	
Earned surplus:		
Representing principally net earnings of subsidiary companies since September 1, 1933 which have not been distributed to the parent company — per accompanying statement	6,715,185.41	
	$14,698,200.62	
Less — Cost of 48,958 shares of capital stock of United Drug, Inc. acquired and held by subsidiary company for corporate purposes	529,249.87	14,168,950.75
CONTINGENT LIABILITY:		
United Drug, Inc. and certain other companies organized in 1933 pursuant to a Plan of Reorganization of Drug Incorporated (*since dissolved*) have agreed to assume liability for any obligations which may be lawfully established against Drug Incorporated.		
		$56,417,855.22

UNITED DRUG, INC.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS FOR THE YEAR ENDING DECEMBER 31, 1938

Sales, less returns, allowances and discounts		$87,867,228.46
Cost of sales, selling, general and administrative expenses (*including depreciation of* $1,170,452.37)		84,985,995.65
Profit from operations		$ 2,881,232.81
Other income:		
Income from investments	$ 18,044.66	
Interest on notes receivable, etc.	51,134.72	
Adjustment of prior years' provisions for federal income and excise taxes	63,499.68	132,679.06
		$ 3,013,911.87
Other charges:		
Interest on funded debt	$1,753,294.44	
Loss from operation of guaranteed leases	434,503.67	
Provision for miscellaneous investments	78,041.24	
Federal and foreign income taxes	221,499.05	
Miscellaneous other charges (net)	8,141.55	2,495,479.95
Net profit for the year		$ 518,431.92
Consolidated earned surplus, balance December 31, 1937		6,123,620.35
Discount on purchase during the year of bonds of United Drug Company		73,133.14
Consolidated earned surplus, balance December 31, 1938, carried to balance sheet		$ 6,715,185.41

OFFICERS

Louis K. Liggett	*President*
George M. Gales	*Vice-President*
Joseph A. Galvin	*Treasurer*
W. Newlin Mitchell	*Assistant Treasurer*
William F. Davis, Jr.	*Secretary*

DIRECTORS

Charles Francis Adams	*Chairman*, Board of Directors, State Street Trust Company, Boston
George M. Gales	*President*, Liggett Drug Company, Inc., New York
George C. Haigh	*Vice-President*, Bank of the Manhattan Company, New York
Louis K. Liggett	*President*, Boston
Warren Motley	Gaston, Snow, Hunt, Rice and Boyd, Boston
Charles S. Munson	*President*, U. S. Industrial Alcohol Company, New York *President*, Air Reduction Co., Inc., New York
James L. Richards	*Chairman Board of Directors*, Boston Consolidated Gas Company, Boston
Fred S. Rogers	Rogers Drug Stores, Inc., Middletown, New York
Eugene W. Stetson	*Vice-President*, Guaranty Trust Company of New York, New York

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Transfer Agents

Guaranty Trust Company of New York, New York
State Street Trust Company, Boston

Registrars

The Chase National Bank of the City of New York, New York
The National Shawmut Bank of Boston, Boston

Counsel

Gaston, Snow, Hunt, Rice and Boyd, Boston
Root, Clark, Buckner and Ballantine, New York